

Auditor of State (AOS) Municipal Oversight: Frequently Asked Questions

CITY EXAMINATION REQUIREMENTS

Q1. What is the Municipal Oversight law?

- A1.** The Municipal Oversight law was enacted during the 2012 Legislative Session. This law affects oversight of Cities with a population of fewer than 2,000 and is effective July 1, 2013. To view an informational article by former State Auditor David A. Vaudt pertaining to the Municipal Oversight law and related requirements, click [HERE](#).

Q2. Does the Municipal Oversight law require all Cities to be audited?

- A2.** No. An annual audit will continue to be required for Cities with a population of 2,000 or more. Cities with a population under 2,000 will be required to have annual or periodic examinations, the frequency of which is based on budgeted expenditures.

All Cities will continue to be required to have a Single Audit performed in any year the City expends \$500,000 or more of Federal awards or in any year the City receives a citizens' petition for audit pursuant to Chapter 11.6(3) of the Code of Iowa.

Q3. What is the difference between an examination and an audit?

- A3.** Iowa Code section 11.1(1)(b) defines "*Examination*" as "procedures that are less in scope than an audit but which are directed toward reviewing financial activities and compliance with legal requirements."

Simply stated, an examination is a set of procedures narrower in scope than an audit, but also with less cost than an audit. Rather than focusing on *auditing* the financial statements of a City, the examination is designed to focus on the financial processes of a City to help ensure accountability and compliance and minimize the opportunity for fraud.

Q4. What is the effective date for annual and/or periodic examinations?

- A4.** The Municipal Oversight law passed during the 2012 Legislative Session is effective July 1, 2013.

For Cities required to have an annual examination, the period of the annual examination will be July 1, 2012 through June 30, 2013 (fiscal year 2013) performed during the period July 1, 2013 through March 31, 2014 (fiscal year 2014).

Cities not required to have an audit or annual examination will have a periodic examination conducted at least once every 8 (eight) years. Periodic examinations will commence after July 1, 2013 and cover years ending June 30, 2013 or later. A periodic examination may be performed as of any month end (rather than fiscal year end).

Q5. How do I know whether my City is required to have an annual examination or a periodic examination?

A5. Cities under 2,000 population with \$1 million or more in budgeted expenditures **in two consecutive years** will be required to have an **annual** examination. Cities with budgeted expenditures of \$1 million or more in a single year will continue to be subject to a **periodic** examination, not an **annual** examination.

Cities under 2,000 population with less than \$1 million of budgeted expenditures will be subject to a periodic examination to be performed at least once every eight years.

Click below on the appropriate fiscal year to determine whether a city is subject to an annual audit, an annual examination or a periodic examination for that year.

2013
2014
2015

Q6. May Cities choose to have an audit instead of an examination?

A6. Yes. Cities may have an audit performed for any fiscal year in lieu of an annual or periodic examination. Likewise, Cities subject to periodic examinations may choose to have an annual examination performed.

Cities may not choose to have an examination in lieu of an audit when an audit is required. Likewise, Cities may not choose to have a periodic examination in lieu of an annual examination when an annual examination is required.

Q7. Are there specific examination procedures to be performed, and are these required procedures or simply suggestions?

A7. For consistency, the Auditor of State has established required procedures for annual examinations.

To access and download a copy of the required City Annual Examination Agreed Upon Procedures Program Guide (Microsoft Word), right-click [HERE](#) and click Save Link/Target As... on the context-sensitive menu.

Q8. Are there other resources available pertaining to annual and/or periodic examinations?

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A8. Yes. Click [HERE](#) to access other resources available on the AOS website.

Q9. What if I have other questions about these new requirements?

A9. For questions concerning these new requirements, Email to info@auditor.state.ia.us or call our Office at 515-281-5834.

Q10. NEW (7/2013) Some Cities have separate Boards/Departments with separate accounts, such as the Library or Fire Department. Should these separate Boards/Departments be included in the scope of City examinations?

A10. Yes. Chapter 384.20 of the Code of Iowa pertaining to separate accounts, states, in part:

1. A city shall keep separate accounts corresponding to the programs and items in its adopted or amended budget, as recommended by the committee (City Finance Committee).

2. A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Auditors should exercise professional judgment in determining the scope of procedures and extent of testing required when including separate Boards/Departments in City examinations.

See guidance pertaining to [Separate Municipal Utilities](#).

Q11. NEW (7/2013) Some Cities have potential component units, such as Friends of the Library, Fire Associations and/or Foundations. Should these potential component units be evaluated in accordance with the reporting entity criteria prescribed in GASB Statements 14, 39 and 61 for possible inclusion in the scope of City examinations?

A11. No. Auditors are not required to evaluate or include potential component units in the scope of City examinations.

See guidance pertaining to [Separate Municipal Utilities](#).

Q12. NEW (7/2013) If a City has a single audit, is it still required to have a City examination?

Note: A single audit is an audit of both the City's financial statements and its Federal programs.

A12. No. If a City is required to be audited, an examination is not required.

Q13. NEW (7/2013) If a City has a program specific audit, is it still required to have a City examination?

Note: A program specific audit is an audit of an individual federal program rather than a single audit which includes an audit of both the City's financial statements and its federal programs. For example, if the City has only one federal program greater than \$500,000 and the City is not otherwise required to have a financial statement audit, a program specific audit can be conducted.

A13. Yes. Since the program specific audit covers only the Federal program, a City examination is still required.

CITY ANNUAL EXAMINATION REQUEST FOR PROPOSALS (RFP)

Q1. Are Cities required to use a written request for proposals (RFP) process for annual examinations?

A1. Yes. Cities must use a written RFP process to engage a CPA firm to perform the City's required annual examination. Cities are not required to use an RFP if the City hires the Office of Auditor of State to perform the required annual examination.

Q2. Does the Auditor of State have a sample RFP form to use when requesting a written proposal for the City's annual examination?

A2. Yes. To download the City Annual Examination RFP form (Microsoft Word), right-click [HERE](#) and click Save Link/Target As... on the context-sensitive menu.

Q3. REVISED (7/2013) Is the City required to use this RFP form?

A3. No, the City is not required to use the sample RFP form prepared by the State Auditor's Office, but it must use an equivalent written document. The RFP form is designed to facilitate the separate Municipal Utilities' annual examination requirement, including the separate Municipal Utilities' requirement to use a written, competitive RFP process.

CITY ANNUAL EXAMINATION FILING FEES

Q1. What are City annual examination filing fees and when does the City have to pay these?

A1. Filing fees are provided for under Chapter 11 of the Code of Iowa and are paid by Cities when the City files an annual examination report with the Office of Auditor of State.

Q2. REVISED (3/2014) How do I determine the amount to pay for a City annual examination filing fee?

A2. A fee scale has been established by administrative rule. Fees are determined based on the budgeted expenditures of the City using the original certified budget for the fiscal year of the City annual examination report being filed. The designated strata and applicable fees are as follows:

If the City meets the requirement to have a Periodic examination and has not chosen to have an annual examination performed in the current year, see “**CITY PERIODIC EXAMINATION FEES**,” Q2, or click **HERE** to determine the correct fee amount.

Annual Examination Filing Fee	
Budgeted Expenditures	Fee Amount
Under \$1 million	\$100
At least \$1 million but less than \$3 million	\$175
At least \$3 million but less than \$5 million	\$250
At least \$5 million but less than \$10 million	\$425
At least \$10 million but less than \$25 million	\$625
\$25 million and over	\$850

Q3. REVISED (8/2013) Where do I send the City annual examination filing fee payment?

A3. City annual examination filing fee checks should be made payable to the “Office of Auditor of State” and mailed to:

Office of Auditor of State
PO Box 333
Des Moines, IA 50302-0333

CITY ANNUAL EXAMINATION REPORT FILING REQUIREMENTS

Q1. What are the City annual examination report filing requirements?

A1. City annual examination reports are due by March 31 (nine months after year end).

Q2. Where do I send the paper copies of the City annual examination report, invoice and news release?

A2. Mail two paper copies of the City annual examination report, invoice and news release to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, IA 50319-0001

Q3. Where do I send the electronic PDF copy of the City annual examination report for posting on the AOS website?

A3. Email to: SubmitReports@auditor.state.ia.us

Q4. NEW (7/2013) If a City is unable to complete and file the annual examination report on or before March 31, can the due date be extended?

A4. Yes. The City should submit a written request to the Auditor of State on or before March 31 for the State Auditor's review and consideration.

CITY PERIODIC EXAMINATION REQUEST FOR PROPOSALS (RFP)

Q1. Are Cities required to use a written request for proposals (RFP) process for periodic examinations?

A1. No. For Cities subject to the periodic examination requirements, the Municipal Oversight law requires the Office of Auditor of State (AOS) to administer periodic examinations, including the RFP process. AOS will perform some periodic examinations and send RFPs and hire CPA firms to perform other periodic examinations. The cost of the periodic examinations will be paid from the periodic examination fees paid to the AOS.

CITY PERIODIC EXAMINATION FEES

Q1. What are City periodic examination fees and when does the City have to pay these?

A1. Cities not required to have an audit or annual examination will pay a periodic examination fee each year to AOS to cover the costs of a periodic examination. Periodic examination fees are provided for under Chapter 11 of the Code of Iowa and are to be established by administrative rule. Periodic examination fees will be paid to AOS by Cities on or before March 31 every year except years the City has an audit or annual examination performed.

Q2. REVISED (8/2013) How do I determine the amount to pay for the City periodic examination fee?

A2. Periodic examination fees are provided for under Chapter 11 of the Code of Iowa and are to be established by administrative rule. Working with the Iowa League of Cities, AOS determined the following periodic examination fee structure in order to execute the statutorily required periodic examinations for Cities with budgeted expenditures of:

If your City meets the requirement to have an annual examination, see “**CITY ANNUAL EXAMINATION FILING FEES**,” Q2, or click **HERE** to determine the correct fee amount.

Periodic Examination Fee	
Budgeted Expenditures	Fee Amount
Under \$50,000	\$100
At least \$50,000 but less than \$300,000	\$475
At least \$300,000 but less than \$600,000	\$900
\$600,000 and over	\$1,200

Q3. REVISED (8/2013) Where do I send the City periodic examination fee payment?

A3. City periodic examination fee checks should be made payable to the “Office of Auditor of State” and mailed to:

Office of Auditor of State
PO Box 333
Des Moines, IA 50302-0333

CITY PERIODIC EXAMINATION REPORT FILING REQUIREMENTS

Q1. What are the City periodic examination report filing requirements?

A1. City periodic examination reports are due as indicated in the request for proposal under which the examination was contracted.

Q2. Where do I send the paper copies of the City periodic examination report and news release?

A2. Mail two paper copies of the City annual examination report and news release to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, IA 50319-0001

Q3. Where do I send the electronic PDF copy of the City periodic examination report for posting on the AOS website?

A3. Email to: SubmitReports@auditor.state.ia.us

SEPARATE MUNICIPAL UTILITIES

Q1. NEW (7/2013) Are Municipal Utilities subject to the audit or examination requirements?

A1. Yes. Municipal Utilities are subject to the requirements for either audit or examination. Municipal Utilities included in the City's accounting and reporting structure should be included in the scope of the City's audit, annual examination or periodic examination, based on the City's requirements for audit or examination.

Q2. NEW (7/2013) Are separate Municipal Utilities subject to the audit or examination requirements?

Note: For purposes of this FAQ, Municipal Utilities not included in the City's accounting and reporting structure are referred to as "separate Municipal Utilities." Separate Municipal Utilities are Municipal Utilities established under Chapter 388 of the Code of Iowa with a separate Board and not otherwise included in the City's accounting and reporting structure. Separate Municipal Utilities may have fiscal years ending June 30 or December 31.

A2. Yes. Separate Municipal Utilities are subject to the requirements for either audit or examination.

Note: These new requirements apply to separate Municipal Utilities for the fiscal year ended June 30, 2013 or the calendar year ending December 31, 2013.

Q3. NEW (7/2013) How do we determine whether the separate Municipal Utilities are required to have an audit, an annual examination or a periodic examination?

A3. Separate Municipal Utilities will follow the audit and examination requirements for the City where they are located. For example, separate Municipal Utilities located in a City with a population of 2,000 or more are required to have an annual audit. Separate Municipal Utilities located in a City with a population under 2,000 will be required to have an annual or periodic examination based on the requirement applicable to the City, unless other requirements, such as revenue bond covenants, require the separate Municipal Utilities to be audited.

Q4. NEW (7/2013) May separate Municipal Utilities choose to have an audit instead of an examination?

A4. Yes. Separate Municipal Utilities may have an audit performed for any fiscal year in lieu of an annual or periodic examination. Likewise, separate Municipal Utilities located in a City subject to periodic examinations may choose to have an annual examination performed.

Separate Municipal Utilities may not choose to have an examination in lieu of an audit when an audit is required. Likewise, separate Municipal Utilities may not choose to have a periodic examination in lieu of an annual examination when an annual examination is required.

Q5. NEW (7/2013) Are separate Municipal Utilities required to use a written request for proposals (RFP) process for annual examinations (consistent with the RFP requirements for audits)?

A5. Yes. Separate Municipal Utilities must use a written RFP process to engage a CPA firm to perform the separate Municipal Utilities required annual examination. The separate Municipal Utilities is not required to use an RFP if the separate Municipal Utilities' Board hires the Office of Auditor of State to perform the required annual examination.

Q6. NEW (7/2013) Does the Auditor of State have a sample RFP form to use when requesting a written proposal for the separate Municipal Utilities annual examination?

A6. Yes. The Auditor of State developed a sample RFP for City annual examinations. The sample RFP for City annual examinations may be used, as applicable, for annual examinations of separate Municipal Utilities.

To download the City Annual Examination RFP form (Microsoft Word), right-click [HERE](#) and click Save Link/Target As... on the context-sensitive menu.

Q7. NEW (7/2013) Are the separate Municipal Utilities required to use this RFP form?

A7. No, the separate Municipal Utilities are not required to use the sample RFP form prepared by the State Auditor's office, but it must use an equivalent written document. The RFP form is designed to facilitate the separate Municipal Utilities' annual examination requirement, including the separate Municipal Utilities' requirement to use a written, competitive RFP process.

Q8. NEW (7/2013) Are there specific annual examination procedures to be performed for separate Municipal Utilities and are these required or suggested procedures?

A8. For consistency, the Auditor of State has established required procedures for annual examinations. These annual examination procedures are also required to be used, as applicable, for annual examinations of separate Municipal Utilities.

To access and download a copy of the required City Annual Examination Agreed Upon Procedures Program Guide (Microsoft Word), right-click [HERE](#) and click Save Link/Target As... on the context-sensitive menu.

Q9. NEW (7/2013) Are there other resources available pertaining to annual examinations of separate Municipal Utilities?

A9. Yes. Click [HERE](#) to access other resources available on the AOS website. These resources may be used, as applicable, for annual examinations of separate Municipal Utilities.

Q10. NEW (7/2013) Will there be additional guidelines available for periodic examinations of separate Municipal Utilities?

A10. Yes. The State Auditor's Office is developing guidelines for periodic examinations of Cities. These guidelines will be also used for periodic examinations of separate Municipal Utilities.

Q11. NEW (7/2013) Are separate Municipal Utilities required to file annual/periodic examination reports separately from the City and pay a separate audit filing fee, separate annual examination filing fee or separate periodic examination fee?

A11. By Statute, audit and annual examination filing fees are assessed for the filing of each report.

Separate Municipal Utilities may file audit or annual examination reports which are included in or separate from the City's audit or annual examination reports.

When a separate Municipal Utilities files an audit or annual examination report covering only its operations, the separate Municipal Utilities must pay an audit or annual examination filing fee. The City is also required to pay an audit or annual examination filing fee for filing a report covering its operations.

When the separate Municipal Utilities is included in an audit or annual examination report which includes the separate Municipal Utilities and the City, only one filing fee is required to be paid. The allocation of the filing fee between the City and the separate Municipal Utilities is a local decision.

Cities and separate Municipal Utilities subject to periodic examinations should discuss and determine whether they wish to be subject to separate or combined examinations. The periodic examination fee paid annually by the City for examinations of the City and the separate Municipal Utilities may be allocated as locally determined.

Q12. NEW (7/2013) What are the report filing requirements for separate Municipal Utilities?

A12. Separate Municipal Utilities will file their separate audit report, annual examination report or periodic examination report consistent with the City report filing requirements described in other sections of the FAQ.